Finance Report for Finance Steering Group and SMT

July 2016

Executive Summary

This report reviews our financial position against the budget agreed for 2016/17 in November 2015. At the time of writing we are in the process of reviewing our 2016/17 budget, based on updated spending plans submitted by each budget holder during August. We are due to confirm any budget revisions to DCMS by 9 September.

There are currently no material areas of concern.

Based on fee income received to the end of July, planned expenditure prior to our mid-year budget review and observations made up to the time of writing the report in late August, we are currently forecasting a budget surplus by year end in the region of £0.5m to £0.75m.

At the time of writing our work to review this year's budget confirms that an additional £0.5m is being sought by budget holders. Approximately half of this increase is committed spend and half requested for projects anticipated to commence later in the year. We are therefore confident that our forecasted budget surplus will be sufficient to cover our planned additional expenditure for the rest of the year, particularly considering the historic challenge of spending up to budget in all areas.

Financial Overview as at 31 July

DP Income

Year to date DP income is £40k behind budget. In this light we have reviewed our June forecast of an additional £720k of income. As the graph below reflects, there has been a dip in income in July, however it has recovered in August to be running at £120k above our year to date budget.

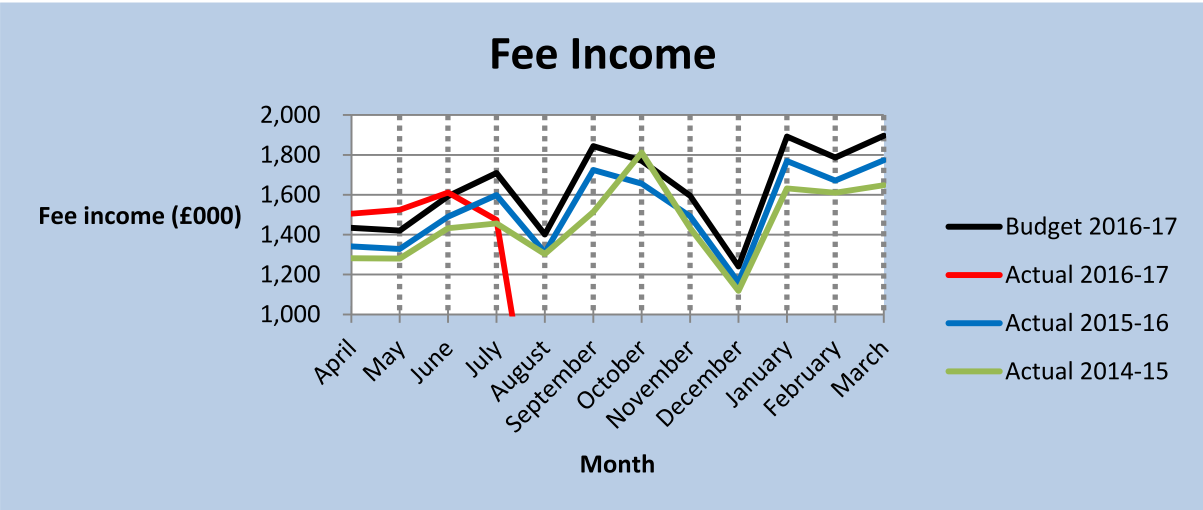
In the light of this we expect fee income to come in between £300k and £720k ahead of budget and have therefore reduced the forecast to £500k. When viewed at the end of July this dip left us £40k below YTD budgeted fee income. However, the healthy recovery during August, with fee income receipts well ahead of forecast, means we are confident when still predicting a budget surplus by year end. This is expected to be confirmed in August's management accounts and able to be shared with September's Audit committee and the SMT Planning Day on 12 and 13 September respectively.

We have investigated July's dip in fee income and believe it was primarily caused by the displacement of fee income received against our budget profile for the year, rather than any significant reduction in the actual fee income we can expect to receive. We believe there are two root causes;

First was a slight increase in the number of data controllers letting their registration expire in July, possibly due to an impulsive reaction to the EU referendum result. Our work to follow up expired registrations is expected to ensure this position is recovered.

The second cause relates to our IT hardware failure in May/June 2015. This caused a two week period during which very little fee income was banked. Our monthly fee income increase targets to achieve budget for 2016/7 have however been set against the actual receipt of fee income in 2015/6. This means we have been measuring this year's fee income performance against an artificially low bar in May and June and an artificially high bar in July.

Our management accounts due at the end of September will be able to absorb these two factors enabling us to be more precise with our mid-year forecast.



FOI Grant in Aid (GIA)

Annual GIA cash settlement has been agreed at £3.75m for 16/17 – 18/19 inclusive. This is now paid monthly and monthly returns to and receipts from DCMS are up to date.

Staff, training and recruitment

Staff costs have been updated to reflect current filled posts and vacancies as notified by Budget Holders and are expected to come in within £5k of the original budget. The forecast has been amended at budget level to reflect the staff in each team.

The FTE at 31 July is 421, against a full year budget of 435 and March 16 figure of 409.

Comparing to 2015/16 the impact of the loss of rebate for national insurance can be seen – we anticipate NIC costs rising by some £300k on a like for like basis.

Training courses are showing a significant overspend year to date – primarily £72k of ACIP training for the enforcement team. It should be noted that £26k of this was "funded" from POCA receipts received in 2014/15.

As noted above the forecast also includes additional costs of training identified in year. The increase reflects the increase in staff numbers together with a number of new departmental training initiatives, for example media skills, sharepoint, management development, customer service training to name but a few.

Capital Spend – IT projects and IT revenue

Project expenditure is budgeted at £1.215m of which £650k is anticipated to be capital. We will be reviewing our capital spend prior to mid year.

With regard to our total IT budget, license costs are running £100k over budget. This is due to increased staffing numbers, and increased proportion of ICO staff needing to access an increased proportion of IT software and the need to license software in parallel as we transition to new case management and EDRM software.

Project costs are currently running behind budget but are expected to spend to budget by year end. Projects can however be deferred to next year if a budget increase to cover the extra license costs cannot be confirmed in year as part of our mid-year budget review.

The additional workload for our in house Commercial Legal team, caused by things like our taking responsibility for the TPS contract, has also caused us to out source much of our IT Procurement legal advice. We are anticipating an additional spend of £70k over budget to cover these costs this year.

Movement of sponsorship from the MOJ to DCMS

The management agreement with DCMS is in the final stages of negotiation, but is not yet signed. Operationally we are adjusting to the new regime for reporting, but there are no significant changes in the operational parameters to which we must comply.

The budget for 2016/17 has been agreed with DCMS, with a three year award for GIA of £3.75m, including £650k capital allowance.

The cabinet office require an efficiency review by 9th September covering 4 years forward. DCMS also require an updated budget forecast (following our August budget review) for 2016/17 on the next GIA return due 13th September.

Regarding the Cabinet Office efficiency review, we are asked to find 0.5%, 1% and 2% recurring efficiencies over the three year period to 2019/20. The percentage relates only to our RDEL of our FOI GIA funding, so £3.1m.

Financial systems

We have now recruited a project/systems accountant to push forward with the changes required to finance systems. The person is due to start in early September. We are also pushing forward with the replacement GPC system and expect to be rolling this out during September and October.

Other activities

As mentioned above, The TPS contract is due to come across to the ICO from a date yet to be confirmed. From that point we expect to consolidate those figures into our accounts. Our July accounts do not therefore reflect any changes for this activity.

Total office costs

Overall office costs are above budget by 2%. Included in the line "other" is £50k relating to the legal fees and stamp duty land tax on renegotiation of the Wycliffe House lease. This was not in the original budget. We have also moved £22k to capital spend following the refurbishment of some meeting room and bathroom facilities.

Legal, professional & other

These costs are under budget by £85k. We continue to develop in-house staff to make sure that costs for external professional support is

minimised. That said there are a lot of leal activities on going for which costs have not yet come through. For example, EUDP advice, HR legal advice, Operation Spruce and CMP fine recovery. As such the budget has been increased.

Depreciation & Amortisation

These costs are running under budget, but this will catch up when new assets are capitalised.

Civil Monetary Penalties

The current debtor of CMPs owed to the ICO as at 31 July 2016 is £3,001,140 of which £815,000 was provided as a bad debt at the end of March 2016 – net outstanding is £1,750,560 as follows:

B/f 2015-16	*1,873,940*
less bad debt provision 15/16	*(815,000)*
accounts balance	*1,058,940*
Issued penalties gross	1,210,400
Issued penalty increase post appeal	-
Issued prompt payment discount	(83,200)
Net	**2,186,140**
Receipts	(435,580)*
Impaired	-
Balance	**1,750,560**
*paid to consolidated fund in July	374,310

The creditor due to the consolidated fund (via DCMS) in respect of the above is £2,186,140 of which £374,310 was remitted in July. At the present time we do not impair and fully write off penalties until such time as we receive legal advice that the debt cannot be recovered. For prudent accounting purposes we were obliged to make provision for those debtors in liquidation at the end of the financial year, however these debts have not yet been fully written off as we are still chasing them. For clarity we will not make similar provision until the year end for current year debts.

Simon Entwisle
July 2016